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Director of Central Intelligence

NATIONAL INTELLIGENCE DAILY

Thursday, 10 August 1989



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Approved for Release
Date JUN 1999

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10 August 1989

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ISRAEL-
LEBANON-IRAN:

Situation Report

Car Bombing in
Security Zone

Five Israeli soldiers were wounded in a suicide car bombing in the security zone in southern Lebanon. Hizballah claimed responsibility for the attack, calling it a pledge of allegiance to Iranian leader Khamenei.

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Tel Aviv will want to demonstrate its hands are not tied by the hostage crisis, which Israeli officials publicly have said could continue for months, and almost certainly will retaliate for the suicide attack—probably with airstrikes—within the next few days. A Hizballah car bombing last October provoked an air raid against Hizballah strongholds in the southern Bekaa Valley two days later. An Israeli military response probably would renew the spiral of violence set off by the kidnapping of Shaykh Ubayd.

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PANAMA:

Reacting to US Military Maneuvers

Recent incidents between Panamanian and US forces show the Panamanian military's mounting frustration over large US maneuvers.

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Panamanian troops yesterday detained two US military policemen at Fort Amador, prompting a US military reaction force to take several Panamanian guards into custody there. The US and Panamanian soldiers were later released. Panamanian forces also harassed US military activities in a number of other incidents yesterday.

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Security forces briefly halted a US Marine armored vehicle participating in a freedom-of-movement exercise on Tuesday, but withdrew after US reinforcements arrived.

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Units of the Defense Forces later tried to halt a column of US armored vehicles in an area the US and Panama jointly control. US Marines detained and later released 27 Panamanian civilians and soldiers, including Major Manuel Siciro, the local military zone commander and Defense Chief Noriega's brother-in-law.

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The Panamanian military is conducting nationwide exercises called "Oust the Intruder" this week. Press reports say airborne assault troops using helicopters held maneuvers near a US airbase on Tuesday. Other forces have set up roadblocks, run convoys with helicopter escort, and carried out training exercises with civilian militia.

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US military maneuvers are undermining Noriega's position among members of the Defense Forces.

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The steady increase in US exercises has clearly caught the attention of Panamanian officers, who are frustrated that they can not respond, but there is no evidence they blame Noriega yet. He nonetheless almost certainly feels pressed to find a way to respond to the US exercises without risking a violent confrontation in order to maintain credibility with his supporters.

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Noriega probably will try to use this week's events for propaganda purposes. He may increasingly turn to the civilian militias to confront US convoys, both to reduce the risk of a direct military encounter and to set up incidents between civilians and US troops to foment nationalist sentiment.

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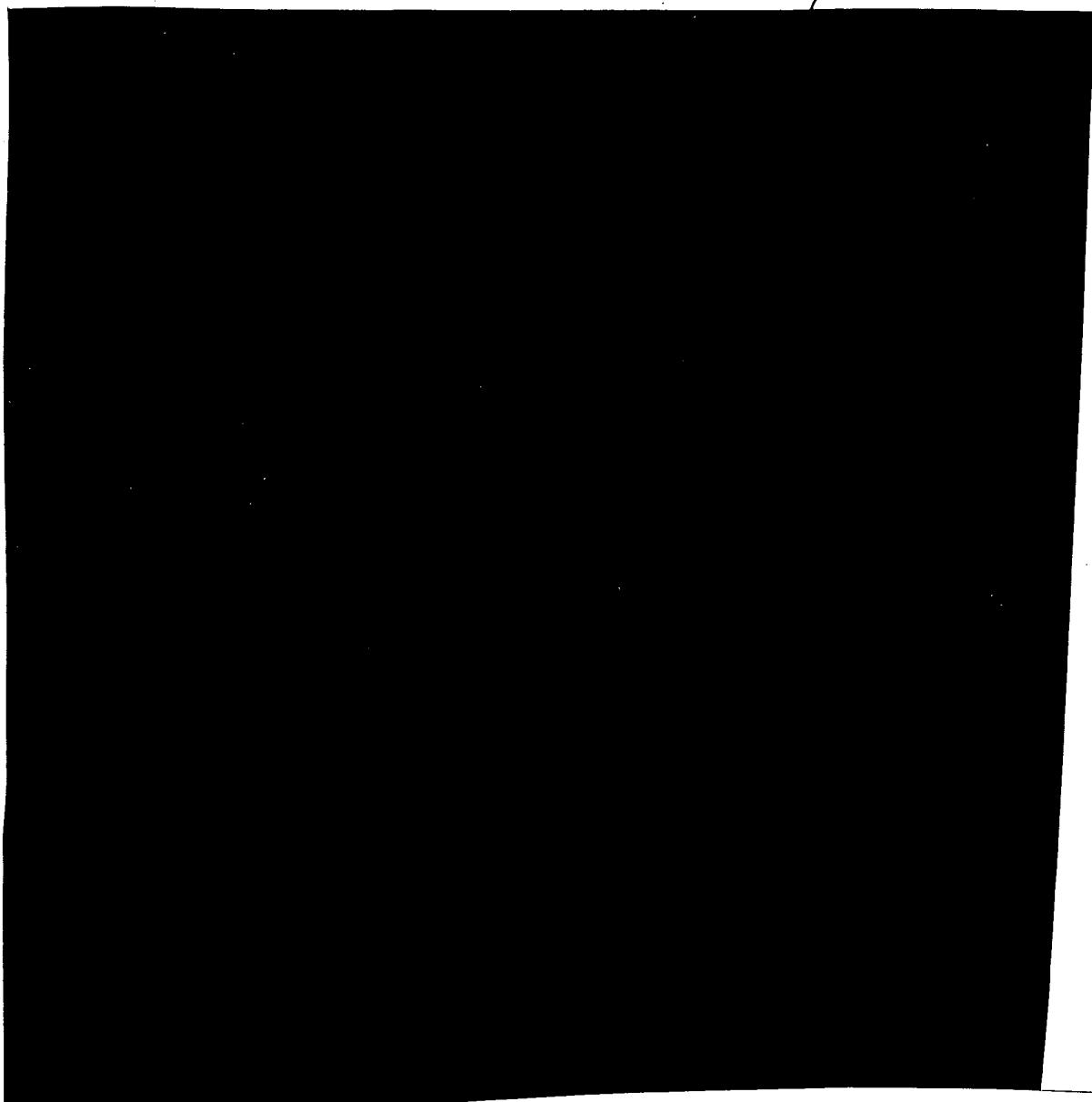
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USSR: Russians Strike in Estonia

Ethnic Russian workers in Estonia went on strike yesterday to protest a new election law disenfranchising recent immigrants and soldiers, most of whom are Russians. More than 20 factories, two freight railway stations, and cargo flights at Tallinn airport [REDACTED] are affected. The strikers demanded that Moscow create a commission to investigate the situation in Estonia. A spokesman for the Russian activist group Intermovement threatened a 1917-style revolution if a law making Estonian the republic's official language is not repealed. On Tuesday the Estonian legislature enacted a two-year residency requirement for voting in local elections this December, despite warning strikes by Russian workers late last month. [REDACTED] b3

b3 [REDACTED] Russians in Estonia—about a third of the republic's population—are worried by the Estonians' growing success in institutionalizing their nationalistic program for republic autonomy. They fear the Estonian electoral majority will pass further legislation that they regard as aimed at driving them out of the republic. Russian activists, frustrated that Moscow has done relatively little on their behalf, now evidently hope to provoke central intervention. Despite the Intermovement warning, however, the probability of major violence is remote, and Moscow for now appears unlikely to do more than urge both sides to compromise. [REDACTED] b3

USSR: Zaykov's Party Prescription at Odds With Gorbachev's

Moscow party chief Lev Zaykov yesterday called for more unity in the Communist Party and for its continued dominant role in Soviet society. In an article in *Pravda*, he urged the party to restore its prestige by strengthening internal discipline and by exploiting its media access more aggressively to publicize its positions on key issues. Zaykov dismissed a recent call by lower-ranking party officials for a sharp reduction in the party's ranks as a means to solve the party's and the country's problems. As an alternative, he proposed increased training for laggard party workers. [REDACTED] b3

b3 [REDACTED] Zaykov's call for party unity and greater guidance from the center responds to complaints from party members, especially at the local level, that the lack of direction from Moscow is weakening the party's influence in society. In contrast, General Secretary Gorbachev and other reform-minded leaders believe the way for the party to regain its prestige is to give the localities greater autonomy. Zaykov's emphasis on restraining party workers also suggests that he favors less sweeping personnel changes than does Gorbachev, who last month advocated a turnover of elected party officials at all levels. Zaykov's opposition to a party purge probably reflects a Politburo consensus, but Gorbachev probably will try to follow through on his threat of some personnel changes, possibly at the nationalities forum scheduled for next month. [REDACTED] b3

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CHINA: Showing Flexibility on Khmer Rouge Role

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b3 [redacted] Beijing is using its first appearance at an international forum since the Tiananmen Square crackdown in early June to show it is a responsible international player willing to help bring peace to Cambodia. Its new initiatives are easy concessions calculated to win international support.

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THAILAND: Key Adviser to Prime Minister Resigns

One of Prime Minister Chatchai's key advisers on Indochina, Dr. Sukhumphan Boriphat, resigned his post Tuesday under pressure from Thai Army officers incensed by his criticism of the military.

b3 [redacted] Army Commander Chavalit's recent call for Chatchai to crack down on government graft provoked Sukhumphan and contributed to his resignation. b3

b3 [redacted] Chatchai undoubtedly accepted Sukhumphan's resignation quickly to placate Chavalit, who wants to succeed Chatchai as prime minister. Foreign Minister Siddhi may benefit most, however, because Sukhumphan has advocated abandoning Siddhi's hard line on Cambodia in favor of recognizing the Vietnamese-backed government in Phnom Penh. Siddhi probably hopes that he can now keep differences with Chatchai on Indochina out of the public eye and assert more control over Bangkok's foreign policy, even though Sukhumphan may retain some influence with Chatchai's inner circle. The Prime Minister is almost certain to continue putting economic goals first in dealing with Indochina. b3

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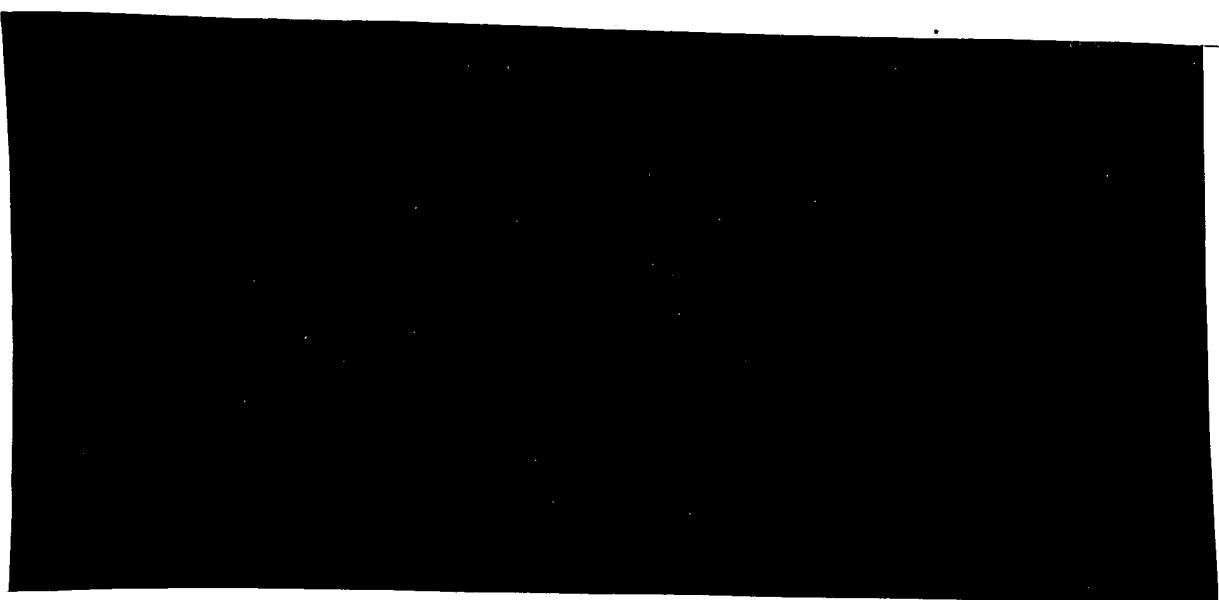
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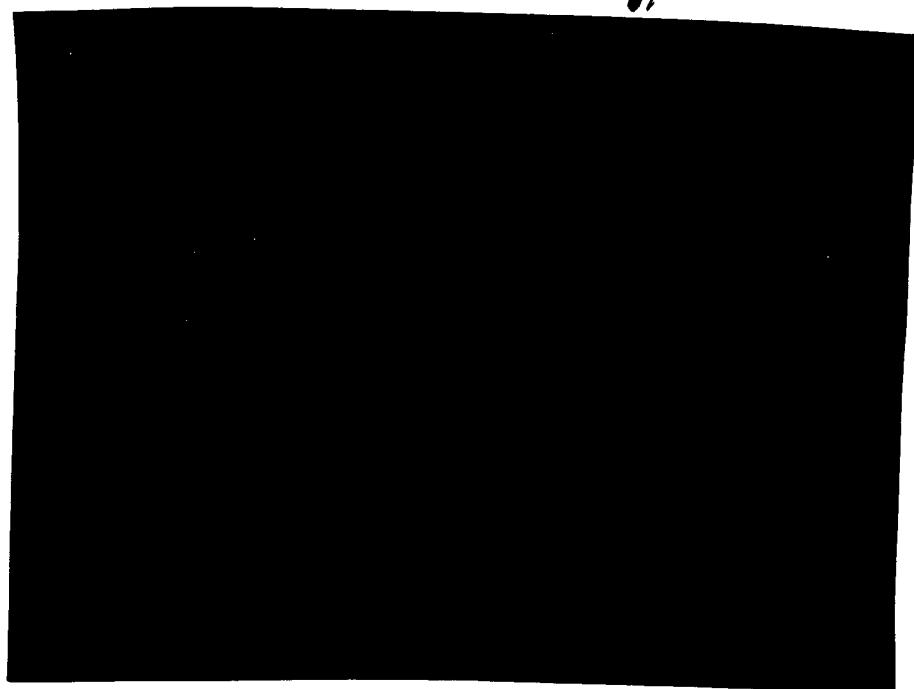
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INDIA-PAKISTAN: Sikh Violence May Harm Relations

Heightened Sikh violence in northern India in the past two days could sharpen Indian fears of Pakistani support to Sikh terrorists and undermine attempts to improve relations. [REDACTED] b3 a bomb exploded on a bus bound for New Delhi yesterday, killing at least 17 and injuring 30. Jammu City in the state of Jammu and Kashmir was placed under indefinite curfew after a Sikh attack on Hindus killed five, injured 10, and sparked widespread violence.

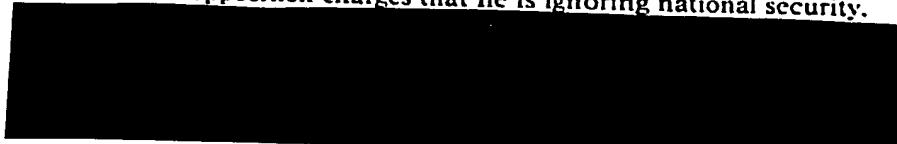
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[REDACTED] Increased Sikh terrorism and allegations of renewed Pakistani support will make it difficult for Prime Minister Gandhi to improve relations with Pakistan. Sikh-Hindu violence outside its usual locale in Punjab and extensive press coverage will make Gandhi vulnerable to opposition charges that he is ignoring national security.

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SOUTH KOREA: Opposition Regrouping

With the approach of a National Assembly byelection in Seoul next week, the two main opposition parties are trying to refocus public pressure on the ruling camp, which recently has taken the offensive against them. Opposition leader Kim Dae Jung, speaking Tuesday at a rally of more than 200,000 in Seoul, threatened a street campaign against the ruling party next month if President Roh does not punish officials from the Chun era who have been accused of corruption and human rights abuses. A spokesman for the Reunification Democratic Party of Kim Young Sam issued a similar warning yesterday but gave Roh until the end of this year. [REDACTED] b3
ruling-party officials believe public interest in the Chun issue is waning and are hinting Roh may declare the matter closed. [REDACTED] b3

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[REDACTED] The opposition's investigation of the misdeeds of the past regime has been its most effective weapon against Roh since last fall, and the two Kims are unlikely to give it up. Kim Dae Jung surely hopes reviving the Chun issue will quiet the uproar over accusations that one of his party's lawmakers who secretly visited North Korea last year also spied for P'yongyang. Kim Young Sam is probably getting back into the fray to counter recent charges from within his party that he is going soft on Roh. The opposition may view the large turnout for Kim Dae Jung and recent media commentary critical of the government crackdown as evidence that the ruling camp has miscalculated popular sentiment. [REDACTED] b3

WEST GERMANY: Going After Drug Profits

The West German cabinet has approved a proposal for legislation establishing an estate fine against convicted drug traffickers that will aid Bonn in targeting the vast proceeds of the drug trade. The legislation provides for a monetary fine of as much as the full value of a trafficker's estate. [REDACTED]

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[REDACTED] The proposed legislation provides a stronger weapon against major traffickers because it avoids the need to distinguish between legally and illegally obtained assets. As a result, it probably will be subject to constitutional challenge in the West German courts. The draft law, which will probably pass the Bundestag as part of a package of new money-laundering reforms, shows Bonn's determination to attack the financial structure of the drug trade. The overall reforms have already received support from West German banking associations and are part of a regional effort against drug trafficking and money laundering. This will also bring West German law into compliance with the UN convention against drug trafficking adopted last year. [REDACTED] b3

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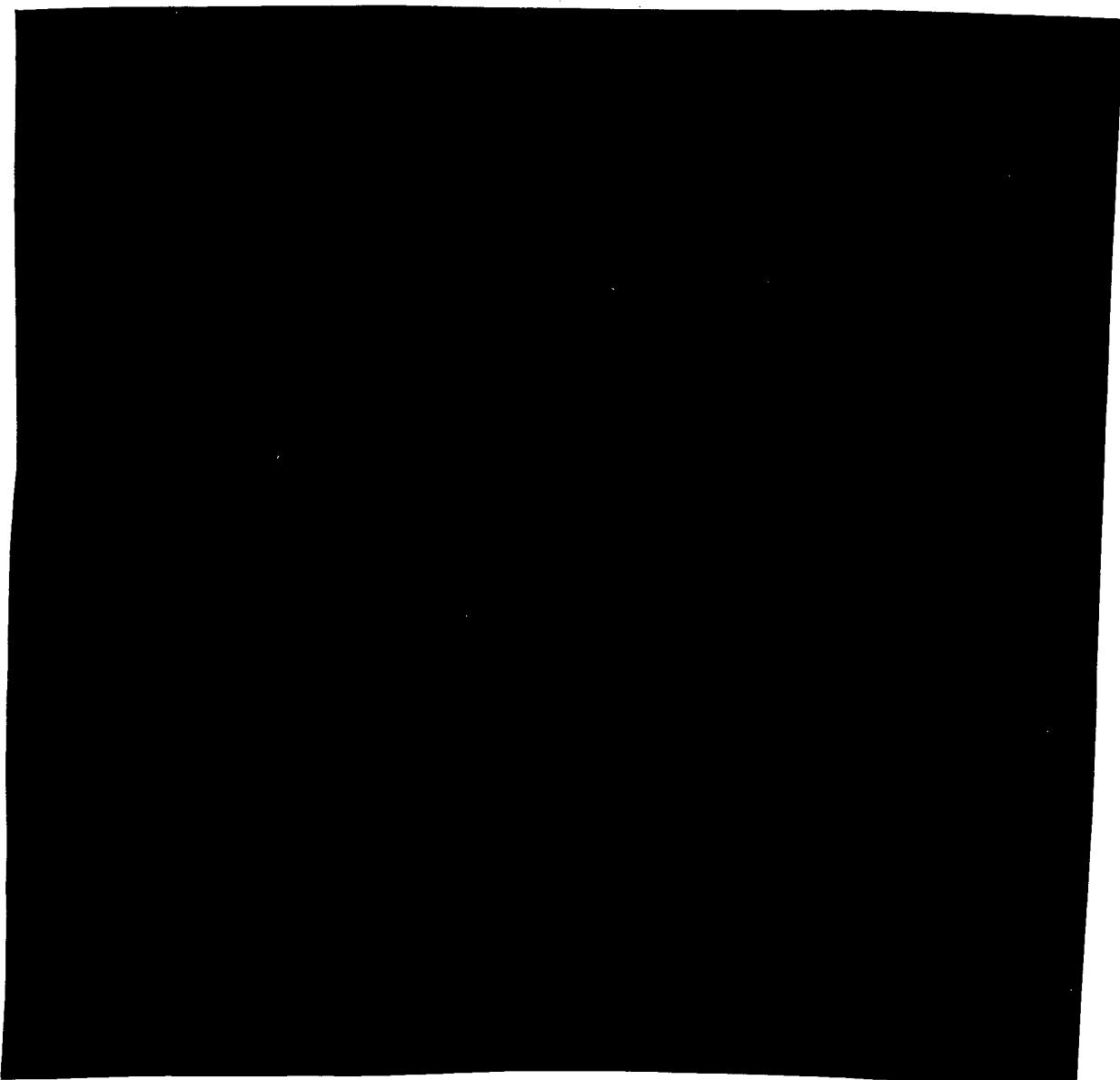
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In Brief

Middle East

[REDACTED] b1, b3

[REDACTED] b1, b3

South Asia

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Africa

— Frontline States meet today in Zambia . . . likely to discuss South Africa's overtures. Angolan reconciliation. Namibian transition to independence . . . may endorse Mozambican peace talks, reach consensus on ANC negotiating strategy toward Pretoria. [REDACTED] b3

[REDACTED] b1
[REDACTED] b3

USSR

— Georgian legislative subcommission has found killings of Tbilisi protesters in April unlawful, says TASS . . . republic's leadership faulted for policy failure, military also blamed . . . USSR Supreme Soviet commission's findings on episode not yet out. [REDACTED] b3

[REDACTED] b1
[REDACTED] b3

East Asia

— China planning to transfer tens of thousands of recent college graduates to low-level rural posts. [REDACTED] . . . plan b3 calls for one- to two-year tours, but similar Cultural Revolution program left intellectuals in countryside for decade. [REDACTED] b3

Americas

— Peruvian Government tomorrow imposes new 1-percent tax on all checking transactions . . . hopes to raise some \$30 million per month . . . bankers, fearing large deposit losses, expect intensified financial instability. [REDACTED] b3

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Other Developments Affecting Soviet Defense Industry

Potential transfer of plants from defense industry to civil machine building

According to Premier Ryzhkov, the chairmen of the Bureau for Machine Building and the Military Industrial Commission are drafting a plan to transfer approximately 10 defense industry plants to the civil machine building sector to build machine tools. Also, some plants from the defense industrial communications equipment ministry are to be transferred to the civil communications ministry.

Ministerial mergers

The Ministry of Radio Industry absorbed the Ministry of Communications Equipment Industry, and the Ministry of Machine Building was merged into the Ministry of Defense Industry.

Call for a conversion plan

The Congress of People's Deputies, which elects Supreme Soviet members, has called for the Council of Ministers to devise a national conversion plan by the end of 1989. Yuriy Maslyukov, newly confirmed chairman of the State Planning Committee, has promised to meet that deadline.

The imposition of *glasnost*

The existence of the Council of Ministers Military Industrial Commission was acknowledged publicly for the first time during confirmation hearings. Subsequently, several deputies have called for a review of its activities.

Ministerial turnover

There are three new defense industry ministers. Since 1985, Gorbachev has changed the heads of all of the sector's ministries at least once, largely because he wanted to move the ministers to civil industrial ministries or to national-level economic posts. Although the new ministers follow the pattern of rising through the ranks of defense industry plants and subsequently their respective ministries, frequent change is new to a sector where ministers normally have served long terms in office.

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Special Analysis

USSR:

Changes in Defense Industry Continue.

More changes in the defense industrial sector came to light during the recent Supreme Soviet session. In presenting his new, streamlined government, Premier Ryzhkov announced the sector would get more responsibilities for civilian production, strengthening its hand in the economy. At the same time, the new legislature created a Defense and State Security Committee, suggesting that defense industry is in for a greater degree of accountability than it has been accustomed to. [redacted]

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Ryzhkov achieved his leaner Council of Ministers by eliminating 25 ministries and state committees and transferring their responsibilities. The number of ministries in defense industry was reduced from nine to seven by merging four of them into two, but the chairman of the Military Industrial Commission said later that the Ministries of Civil Aviation and Communications were added to the sector. Defense industry also took on additional civil obligations as the Ministry of Medium Machine Building—the nuclear weapons authority—took charge of the nation's nuclear power industry by absorbing the civil Ministry of Atomic Energy and the State Committee for the Utilization of Atomic Energy. Ryzhkov also announced that the Ministry of General Machine Building—in charge of space and missile programs—would take responsibility for the production of medical equipment. [redacted] b3

Defense Industry's New Civilian Responsibilities

These new obligations point to a much greater level of defense industry involvement in civil programs and indicate the sector is adding a new dimension to its responsibilities. In addition to its new tasking from the Supreme Soviet, the sector is responsible for retooling food processing and light industry and increasing the production of consumer goods. Demands to help the civil sector no doubt will increase if improvement in consumer welfare continues to lag. [redacted] b3

It is unclear whether defense industry's new civil obligations will make enough difference to achieve Ryzhkov's stated goal of a 60:40 production split in favor of civil goods by 1995. Resubordination of civil plants and the absorption of some civil ministries will no doubt help achieve the goal. Attitudes on conversion within the sector probably are mixed; high-level defense industry officials may regard it favorably because the new civil demands are primarily high-priority programs that enjoy high status in leadership interest and

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investment allocations, but many enterprise officials probably are concerned about the potential erosion of their most-favored status and privileges. Regardless of their views, everyone is probably concerned about the disruptions that will ensue.

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Defense and State Security Committee

The most unsettling event for those in the defense industry probably was the creation of the Defense and State Security Committee. The sector is accustomed to strong oversight of its weapons-related activities, but that has been conducted behind closed doors by party and government officials who understand the sector's sensitivities. The new committee, which will oversee the military and the KGB as well as defense industry, has shown it is willing to assert its authority, even though the membership is weighted toward military interests: its chairman is a career defense industry designer and roughly a third of its 43 deputies are military officers or defense industry representatives. During confirmation hearings, committee members grilled the candidates for Defense Minister and for the defense industry ministries. To gain approval, the latter had to affirm their acceptance of conversion and explain how they would implement it in their enterprises.

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Although the composition of its membership suggests the committee would favor safeguarding traditional military and defense industry interests, the committee so far has demanded increased accountability from the military and the defense industry on implementation of reforms and on increased attention to civil needs. This aggressive thrust has led to the emergence of a dispute over the committee's jurisdiction. When the chairman told the Supreme Soviet that the committee would examine a range of issues, including defense sufficiency, the defense budget, weapons acquisition practices, and the activities of the Military Industrial Commission, President Gorbachev reminded him of the limits on the Supreme Soviet's powers and of the primacy of the Defense Council on all military-related matters. The committee may plan to flex its muscles over the military and defense industry but might be thwarted, either by the Council of Ministers or the Defense Council.

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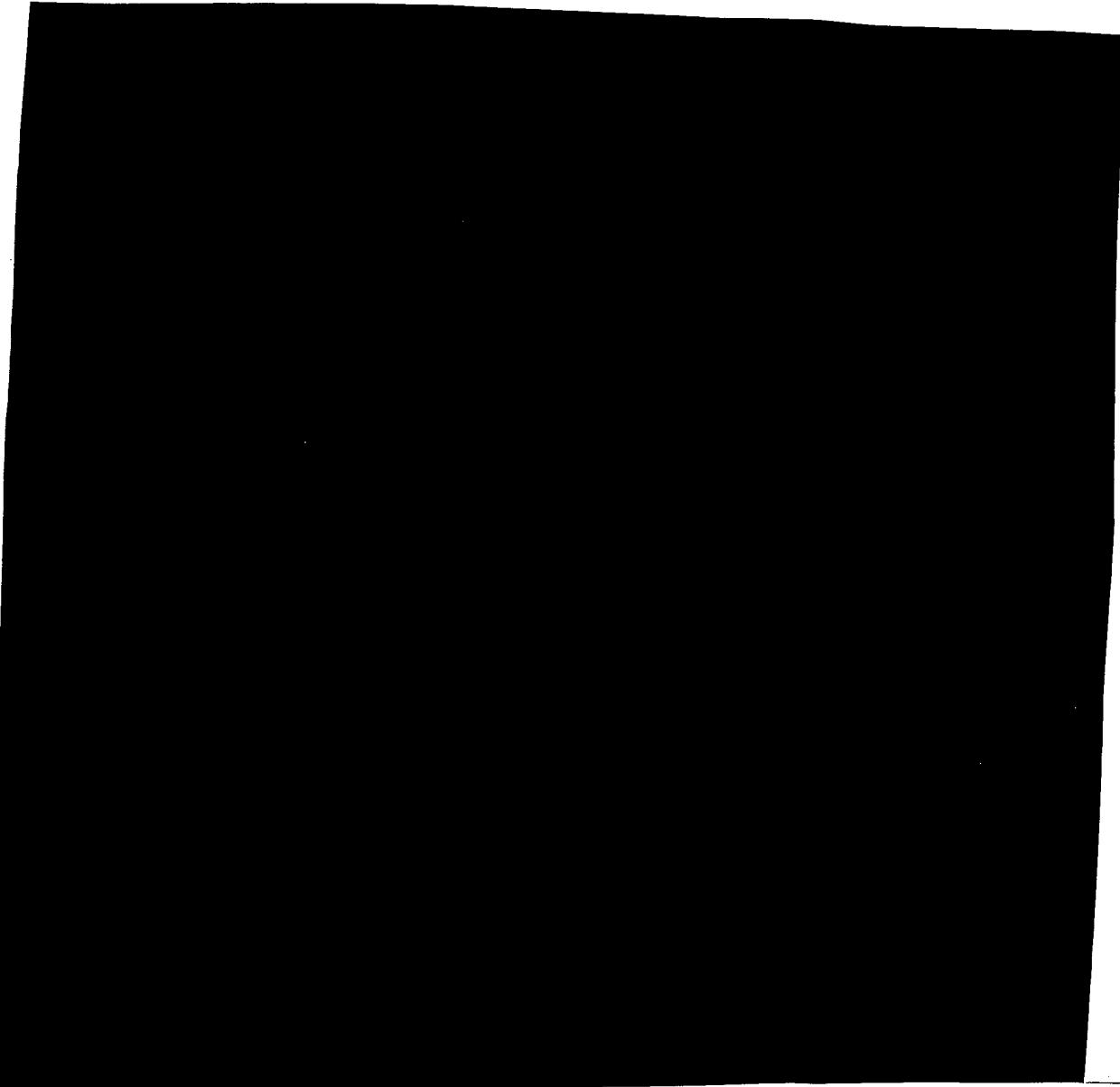
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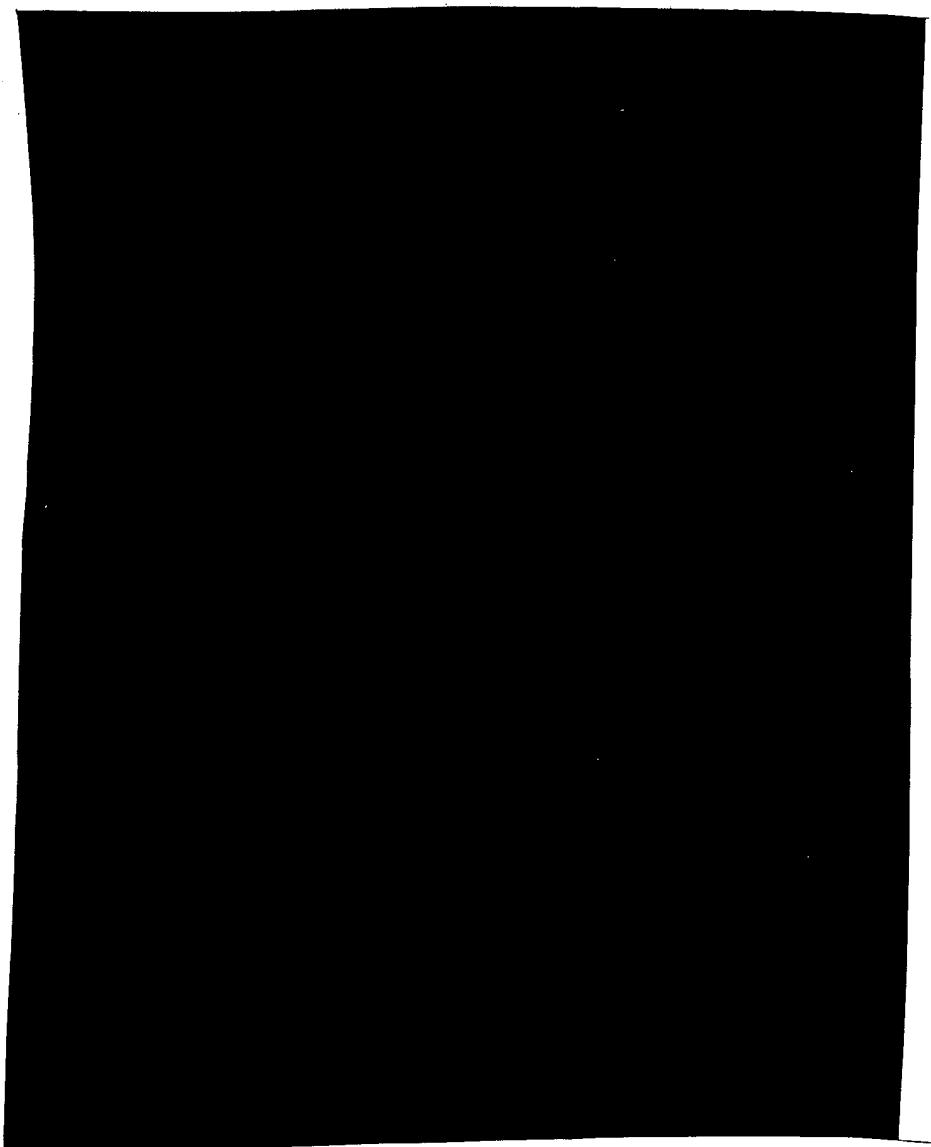
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